

Attachment 1
Analysis of Proposed Line
Estimated Fair Market Value
(CC Docket No. 93-254)

Analysis of Proposed Line Estimated Fair Market Value (CC Docket No. 93-254)

BellSouth Telecommunications
Atlanta, Georgia

January 16, 1994



January 10, 1994

Mr. M. Robert Sutherland
General Attorney
BellSouth Telecommunications, Inc.
675 West Peachtree Street
Suite 4300
Atlanta, GA 30375

Dear Mr. Sutherland:

Theodore Barry & Associates has completed an analysis of the proposed use of estimated fair market value as presented in the FCC's *Notice of Proposed Rulemaking* released October 20, 1993 (Docket No. 93-251).

The conclusions reached in our analysis are consistent with our initial conclusions that were included in the BellSouth Comments to the FCC on December 10, 1993. In summary, we believe that the FCC proposed requirement of comparing fully distributed costs for services to estimated fair market value is neither feasible nor necessary. Our report is enclosed.

Sincerely,



Stephen P. Budd
Managing Director

enclosure

Analysis of Proposed Use of Estimated Fair Market Value

Objective

Theodore Barry & Associates (TB&A) was engaged by BellSouth Telecommunications, Inc. (BST) to analyze certain aspects of the FCC's Notice of Proposed Rulemaking (NPRM), released on October 20, 1993 (Docket No. 93-251). Our analysis focused on the sections of the NPRM related to the proposed use of estimated fair market value (EFMV) for services.

TB&A Qualifications

TB&A is a general management consulting firm specializing in the telecommunications and energy industries. TB&A has long assisted both regulatory commissions and companies in assessing management and operational practices, such as planning and organization, and in various regulatory matters, such as affiliate relations and alternative regulatory frameworks. TB&A is headquartered in Los Angeles and maintains offices in New York, Chicago, and Atlanta.

Overall Conclusions

The FCC intent in this Docket of minimizing inefficiencies that could potentially be passed into regulation - in fact potentially mandated into regulation through the Affiliate Transaction Rules of 32.27 - is worthwhile. There is little justification for affiliates being able to receive full compensation from carriers for charges resulting from inefficient affiliate operations. However, while the intention is worthwhile, the proposed approach of requiring carriers "to estimate the fair market value of all non-tariffed affiliate transactions for which we [FCC] do not permit prevailing company pricing" is neither feasible nor necessary.

The FCC proposal is not feasible for several reasons. First, a "true" EFMV, as determined through a prevailing market, generally is not available for comparison to fully distributed cost (FDC), by definition. If a prevailing market was available, and the affiliate "participated" in this market, the "residual rule" of the Part 32 transfer pricing hierarchy (i.e., FDC) would not be needed since the "general rule" (tariff then market) would apply. In the absence of a prevailing market rate, comparisons with potential alternative providers must act as a proxy. The applicability of alternative provider analyses, however, is largely dependent on the nature of the service. We have found it helpful, for purposes of this and other studies, to categorize services as transaction-based (i.e., readily definable, routine), knowledge-based (i.e., difficult to define, non-routine) or a combination of the two. Significant potential limitations for alternative provider analyses apply to some extent to all

services. Second, the costs required to comply with the EFMV pricing rule will be in excess of any benefits. In fact, we have been unable to identify any tangible benefits associated with the proposed EFMV approach, besides perhaps the perceived additional level of comfort of knowing that some attempt has been made to determine EFMV. Third, we believe that the alternative provider analyses will be of questionable usefulness since, without exhaustive guidelines, the analyses will be extremely inconsistent in their approach and interpretation among carriers. In addition, through varying levels of discipline, these analyses are susceptible to distortion.

It is TB&A's opinion that the EFMV tests proposed by the FCC are not needed. Adequate incentives, inherent in competition and incentive regulation, already exist for carriers to be efficient.

The remainder of this report is organized to follow and support these conclusions.

Analysis of Notice of Proposed Rulemaking

Requiring Comparison with EFMV is not feasible.

- **True EFMV is not available in most cases.**

Ideally, the EFMV of services provided by affiliates would be determined by comparison to prices that others would pay to acquire those services, in other words, the "market rate" prescribed in the FCC Part 32 rules. In lieu of an established market rate, the NPRM proposes that fully distributed costs (FDC) be applied only to the extent that FDC is less than EFMV. No guidance is offered in the NPRM on how to determine EFMV where no market rate exists.

Absent a market rate, in TB&A's view, EFMV can be determined only by comparisons with outside vendors, or alternative service providers. The remainder of our analysis is framed around the need to use alternative provider comparisons as a proxy for EFMV.


- **The degree to which it is possible to determine EFMV is largely dependent on the nature of the service.**

In describing the nature of services, TB&A has found it helpful to define two general categories of service:

- Transaction-based services are operational services which usually involve routine, repetitive, production-oriented activities. For these services, such as shareowner services and accounts payable, it is possible to clearly define an end work product.

- Knowledge-based services are services which involve planning and strategy development. As is expected, those types of services are non-routine and non-repetitive and produce a less clearly defined work product. Typically, planning activities, such as strategic planning and tax planning, are incorporated into knowledge-based services.

In practice, services are rarely purely transaction-based or knowledge-based. It is more common for services to fall somewhere on a continuum between these two categories, as shown below:

	Transaction-Based Services	Knowledge-Based Services
		
Characteristics		
• <i>Nature of Service</i>	Operational	Planning
• <i>Work Process</i>	Routine	Non-Routine
• <i>Service Definition</i>	Clearly Defined	Not Clearly Defined
• <i>Primary Work Product</i>	Product-Oriented	Issue/Oversight-Oriented
Implications		
• <i>Availability of Alternative Providers</i>	High	Low
• <i>Usefulness/Objectivity of Alternative Provider Analysis</i>	High	Low
• <i>Cost of Alternative Provider Analysis</i>	Low	High

As indicated above, in the case of transaction-based services, availability of potential alternative providers is relatively high, as is the general usefulness and objectivity of alternative provider comparisons. In the case of knowledge-based services, the availability of potential alternative providers is relatively low, as is the usefulness and general objectivity of alternative provider comparisons. Due to the difficulties associated with defining the services and identifying realistic alternative providers, the costs for performing alternative provider analyses for knowledge-based services are significantly higher than for transaction-based services.

- **Significant potential limitations for alternative provider analysis apply to some extent to all services.**

The category of the services, as described above, has a direct impact on the ability of a carrier to determine EFMV. However, even for transaction-based services, several potential limitations apply that must be considered in interpreting the results and affixing a level of confidence to the analysis:

- Ability to define the full scope of services
- Ability to identify the actual cost of services
- Ability to specify service levels
- Ability to identify feasible alternative providers
- Ability to obtain realistic and representative prices
- Ability to integrate alternative provider services effectively into corporate processes.

Generally, these limitations are more constraining for knowledge-based services and of lesser concern for transaction-based services.

- **Costs required to comply with the EFMV pricing rule will be in excess of any potential benefits.**

While the ultimate objective of minimizing potential inefficiencies that could be passed into regulation is worthwhile, TB&A has been unable to identify any tangible benefits associated with the proposed EFMV approach. Thus any incremental costs associated with this element of the NPRM most likely would exceed its benefit. The costs estimated in this section are the BST and affiliate costs associated with the NPRM.

- **The costs of complying with the EFMV pricing rule requirements are dependent upon the nature of the service.**

The distinction between transaction-based and knowledge-based services in terms of usefulness and feasibility is important in terms of the cost required to determine EFMV. Transaction-based services tend to lend themselves to estimates of fair market value, through a competitive bidding process, far more readily than do knowledge-based services. The cost of establishing an EFMV for a transaction-based service would resemble the costs incurred by the purchasing function for procurement of any routine service. On the other hand, EFMV for knowledge-based services, such as Research and Development (R&D) projects, are extremely difficult to estimate, requiring a great deal of subjectivity to arrive at the "value" of what is often an intangible service. This complexity will result in increased costs.

- **The majority of BST affiliate transactions priced at FDC represents knowledge-based services or a combination of transaction and knowledge-based (hybrid services). Few services are transaction-based.**

BST affiliate products and services priced at FDC are provided primarily by three entities:

- BellSouth Corporation (BSC)
- Bell Communications Research (Bellcore)
- BellSouth Business Systems (BBS).

While other affiliates provide a few services at FDC, the affiliates above represent the majority of affiliate transactions impacted by the EFMV proposal and are the focus of our analysis. A brief description of each affiliate, and a list of the products and services provided to BST, is provided in the Cost Allocation Manual (CAM) filed by BST with the FCC and is summarized below. A more detailed set of exhibits identifying the affiliate transactions provided as well as the individual service classifications is included in **Attachment A**.

BellSouth Corporation (BSC)

BellSouth Corporation is the parent corporation of BST, as well as various nonregulated subsidiaries that are engaged in businesses other than the provision of regulated local exchange service. Services provided to BST by BSC at FDC include financial, legal, planning, personnel, public affairs, public relations, accounting, security, and executive support services. Conservatively we estimate that 220 BSC services are provided to BST that are priced at FDC. A general estimate of the distribution between transaction-based and knowledge-based services is shown below:

Transaction-based services	15	(7%)
Hybrid services	22	(10%)
Knowledge-based services	183	(83%)

Bell Communications Research (Bellcore)

Bell Communications Research (Bellcore) is jointly owned by the seven Regional Bell Holding Companies. BST is the shareowner of the one-seventh share of Bellcore and is the primary liaison with Bellcore, and its wholly owned subsidiary, Database Service Management, Inc. (DSMI). Bellcore services are provided through discrete research and support projects to BST and its other shareowners. The services provided by Bellcore to BST at FDC include marketing, national security, emergency preparedness, procurement, quality assurance, information systems, training, network, accounting, and regulatory support services. Conservatively we estimate that 225 Bellcore services are provided to BST that are priced at FDC. A general estimate of the distribution between transaction-based and knowledge-based services is shown below:

Transaction-based services	10	(5%)
Hybrid services	149	(66%)
Knowledge-based services	66	(29%)

BellSouth Business Systems, Inc. (BBS)

BellSouth Business Systems, Inc. (BBS) is a wholly owned subsidiary of BST and is a holding company for BellSouth Communications, Inc.; BellSouth Communications Systems, Inc.; Dataserv, Inc.; BellSouth Advanced Networks, Inc. ; and BellSouth Financial Services Corporation. Services provided to BST by BBS companies at FDC include sales, marketing, government compliance, incidental network maintenance and testing, technical support, and systems integration and support services. Conservatively we estimate that 32 BBS services are provided to BST that are priced at FDC. A general estimate of the distribution between transaction-based and knowledge-based services is shown below:

Transaction-based services	12	(38%)
Hybrid services	9	(28%)
Knowledge-based services	11	(34%)

- **Implementation of the proposed EFMV pricing rule will result in substantial recurring fixed and variable costs as well as implementation costs.**

The proposed EFMV pricing rule will result in substantial cost to BST and its affiliates. These costs include both implementation (one time) costs and program administration (recurring) costs. The types of activities that would likely generate the majority of the costs associated with implementing and administering the proposed NPRM, or "cost drivers," are presented in **Attachment B**. In addition to quantifiable costs, other economic costs will be incurred due to delays in service procurement resulting from the EFMV testing, increased internal regulatory compliance, and the establishment of an artificial hurdle that potentially would inhibit mutually beneficial affiliate relationships. These unquantifiable costs will result in an additional impact beyond the estimates that we provide in this report.

TB&A estimates that the approximate cost of performing the EFMV test on a per service basis will vary from a low of \$20,000 for a purely transaction-based service to a high of \$70,000 for a purely knowledge-based service. For hybrid services, actual costs may range between these two figures, depending on the complexity of the transaction to be tested. Roughly the middle of this range, \$45,000, is a representative cost estimate for a hybrid service. A description of the methodology employed to arrive at these estimates is provided in **Attachment B**.

TB&A would expect that, when possible, BST and its affiliates would attempt to reduce the cost of determining EFMV by grouping services and requesting quotes on a group of services. This is only possible when groups of "like services" (well defined and possessing the same characteristics) can be cost effectively packaged for the bidding process.

For the purposes of TB&A's analysis, we have assumed that each Bellcore service, on average, could be grouped with one other like service for EFMV testing, reducing the number of EFMV tests by 50%. Similarly, TB&A estimates that, on average, each BSC service could be grouped with one other like service for EFMV testing purposes. TB&A does not believe that such "grouping" is possible or practical in the case of BBS services.

Grouping of services results in a total of 255 equivalent EFMV tests, with an annual recurring cost of approximately \$14.4 million. It is important to note that these estimates do not include the majority of the costs listed in the "Cost Drivers" section of **Attachment B**, since some costs cannot be quantified at this time.

- **EFMV analyses will be of questionable usefulness.**
 - **EFMV analyses will be inconsistent.**

As stated in the NPRM, "instead of specifying those steps, we propose to require carriers to attempt in good faith to determine whether fair market value exceeds cost... ." While theoretically the methodologies available to perform alternative provider analyses are limited, in practice numerous methodologies have been applied. Many of these methodologies address perceived value from the service recipient's viewpoint, but not necessarily "fair market value," in either their conceptual approach or their application. Based on the nature of the service and the purpose of the analysis, authors of these studies typically devise study approaches that select from numerous possible analysis criteria and gather data in varying levels of detail. Examples of criteria that TB&A and others have used include necessity of the service, organizational placement, fairness of cost allocation, and cost-reduction initiatives.

In TB&A's view, a major challenge for the use of estimated fair market value, as prescribed in the FCC Docket, is ensuring consistency in approach and interpretation, both within and among the carriers. This most likely would require a detailed set of guidelines that would specify the worksteps and level of effort required in order for the "good faith" alternative provider comparison to be deemed completed. Areas where inconsistency in approach and interpretation most likely would occur, and where guidelines would be required, include the following:

- How to define the service to be compared
- How to capture the full set of costs for the service (It is important to note that accounting/reporting systems that currently provide fully distributed cost information for Part 32 purposes typically capture information by functional areas, responsibility centers, and/or cost pools. Cost information for products/services will require a different accounting/reporting structure.)
- How to specify the levels and quality of service to be provided
- How to identify realistic alternative providers
- How to weigh qualitative factors such as breadth of services, delivery time and responsiveness, and financial stability.

- **EFMV analyses can be easily distorted.**

Each of the activities listed above is a formidable task which, for the most part, aligns with the potential limitations discussed earlier. A high level of discipline will be required to produce meaningful analyses since undue casualness or expediency in any of these tasks could compromise the entire analysis.

Requiring comparison with EFMV is not necessary since adequate incentives for efficiency already exist.

In TB&A's view, the current telecommunications environment already provides sufficient incentives to ensure efficiency. The inexorable forces of technology, markets, and regulation continue to undermine many of the assumptions upon which decades of regulation were founded. Regulators and policy makers generally recognize that as competition in the local exchange area expands, the need for regulation to serve as a surrogate for the marketplace is lessened. Many recent regulatory initiatives, both at the federal and state level, have been designed to expedite this transition. It is genuinely felt within the industry that any local exchange company (LEC) that fails to prepare immediately for full competition, and instead seeks refuge in its monopoly status, is doomed.

Rapid developments in technology are eliminating many of the barriers to entry in the local exchange market that existed only a few years ago. New forms of digital wireless technology are being developed and deployed that will make it possible for competitors to offer alternative local services to many of the LEC's best customers. Equipment vendors are developing products and services that will enable cable TV operators to offer telephone service on their existing cable facilities. The LECs can no longer rely on the protection of regulators to thrive or even survive. Rather, economies of scale and scope, i.e., efficiency, and engineering expertise, will be required.

There is little question of the desire and intent of competitors to enter the local exchange business. The recently announced ventures by major industry participants, such as AT&T and McCaw Cellular, U.S. West and Time Warner, Bell Atlantic and TCI, and the recent announcement by MCI to enter the local exchange business, all suggest that competition will be formidable. A primary way that LECs can respond to these new entrants is by dramatically reducing their cost structure. All LECs have begun this process, to some extent, through reengineering efforts, force reductions, and reorganizations. They have no incentive nor inclination to absorb costs from affiliates that exceed fair market value as that would only make them less competitive.

Regulators at the federal and state level have initiated various proceedings and enacted policies that are clearly designed to promote competition. The implementation of Open Network Architecture (ONA), collocation, interconnection, and intraLATA toll competition have sent a resounding message to LECs that they must prepare for increasing levels of competition. The adoption of incentive regulation and other alternative regulatory mechanisms is designed to sever the link that previously existed between costs and rates. Under these new regulatory frameworks, LECs can achieve higher earnings by reducing their costs and stimulating revenues. The motivation to cross-subsidize non-regulated operations is essentially eliminated under this regulatory arrangement.

The technological, market, and regulatory trends that currently impact LECs provide significant incentives for efficiency and a high level of assurance against cross-subsidization. The challenges that face this industry with respect to pending competition are quite significant and they represent the ultimate constraint against any abuse. Cross-subsidies only serve to burden the LECs and are completely inconsistent with the direction that telephone company executives are moving. Regulators have long sought to operate as the surrogate for the marketplace. That marketplace is now on the doorstep of the LECs and there is no longer any tolerance for inefficiencies, including and especially those that may be caused by affiliates.

Concluding Remarks

TB&A believes that monitoring affiliate transactions using the current rules remains the most effective approach to the issues being raised in the NPRM regarding the use of EFMV. Alternative regulatory frameworks together with competition provide more than adequate incentives for ensuring efficiency in affiliate transactions.

Attachments


Attachment A - Classification of services provided to BST (Transaction-based v. Knowledge-based)

- ◆ BellSouth Corporation (BSC)
- ◆ Bell Communications Research (Bellcore)
- ◆ BellSouth Business Systems (BSS)

Attachment B - Cost Impact of EFMV on BST and affiliates

- ◆ Cost Estimate Methodology
- ◆ Assumptions
- ◆ Cost Drivers
- ◆ Cost Estimate Calculations
 - Cost per EFMV test
 - Cost Estimate

BSC Services Provided to BST at FDC

	Transaction-Based Services	Knowledge-Based Services
		
Advertising		
• Supervision of BellSouth Telecommunications advertising.		X
• Negotiation and establishment of corporate-wide Master Agency Contracts used by advertising groups in all entities.		X
• Coordination of advertising strategies and policies for the Corporation.		X
• Provision of market research for advertising target audiences and evaluations of advertising effectiveness.		X
• Management of the corporate identification and graphics standards for BellSouth and subsidiaries.		X
Assistant Secretary/Corporate Counsel		
• Advice and review as to shareholder matters, proxy development, corporate governance practices, and other miscellaneous corporate matters.		X
• Compliance with all federal, state, and foreign securities laws, SEC rules and regulations, state and foreign corporate laws, and stock exchange requirements (foreign and domestic).		X
• Counsel to BellSouth Headquarters and Board of Directors on corporate law and practice.		X
• Coordination of actions and materials that require Board approval.		X
Comptrollers		
<i>Accounting Services</i>		
• Billing, accounts payable, property records, classification, corporate books and reports services for BellSouth Headquarters, BellSouth D.C. and BellSouth Capital Funding Corp.	X	
• Implementation and maintenance of PC-based systems to enhance the efficiency and effectiveness of the Comptrollers organization.	X	
<i>Compensation and Benefits</i>		
• Corporate-wide payroll services for officers of the corporation.	X	
• Corporate-wide accounting research and policy development with respect to employee benefit plans such as pensions, savings plans, ESOP, etc.		X
• Corporate-wide accounting research and policy development with respect to executive and key manager compensation plans such as deferred compensation, stock options, etc.		X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Comptrollers (Cont'd)

Corporate Consolidations and External Reporting

- Subject matter expertise on the Securities Act of 1933 ("33 Act"), the Securities Exchange Act of 1934 ("34" Act) and the 1939 Trust Indenture Act. X
- Preparation and filing of all "33 Act" registration statements for BellSouth and subsidiaries. X
- Preparation and filing of all required "34 Act" filings for BellSouth and subsidiaries. X
- Assisting Secretary in preparation and filing of the BellSouth Notice of Annual Meeting and Proxy statement. X
- Controlling the BellSouth consolidation process, including providing instruction on consolidation to other BellSouth entities. X
- Monthly consolidated regional financial reports compiled from subsidiary data transmissions. X
- Quarterly and annual financial statements for BellSouth and subsidiaries. X
- Analysis and interpretation of accounting pronouncements which affect the company's disclosure requirements. X

Corporate Accounting Policies and Standards

- Participation in external accounting and regulatory standard setting forums (FASB, SEC, etc.) X
- Establishment and communication of corporate accounting policy resulting from pronouncements issued through GAAP, FASB, and SEC releases. X
- Financial and accounting research services for the subsidiaries. X
- Policies and procedures for BellSouth Headquarters general service and project billings. Provide support for regulated witness justification of methods and billing amounts. X
- Interpretation of provisions regarding Executive Instructions and Executive Directives. Issuance of new and revised provisions and assistance in implementing these instructions. X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Comptrollers (Cont'd)

Risk Management

- Maintenance of a comprehensive Risk Management program to minimize the cost of non-speculative risk by exposure identification and control, risk financing through retention or insurance, and contractual transfer, for all BellSouth entities. X
- The placement of all property and casualty insurance, including general liability, automobile liability, workers compensation and other coverages for all BellSouth entities. X
- Research on various risk and insurance matters and development of a coverage program for both domestic and international subsidiaries of BellSouth to structure the most efficient global program in keeping with BellSouth's overall Risk Management strategy. X

Corporate and External Affairs

- Advancement of BellSouth's commitment to educational excellence by utilizing corporate resources in initiatives aimed mainly at elementary and secondary schools. X
- Participation in national and regional initiatives that seek to examine and remedy the problems of education. X
- Weekly updates of publications, conferences and corporate activities related to education via the BellSouth Internal Education Network. X
- Coordination of interdepartmental teams to leverage BellSouth's education involvement, both for positive impact on education and for enhanced share of the education market. X
- Coordination with BSC Human Resources to develop materials and programs that will influence school programs to address the work force skills required by BellSouth employees. X
- Administration of approval process for grants from the BellSouth Foundation. X
- Representation of company in education and business associations. X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Corporate and External Affairs (Cont'd)

- Coordination of all requests for corporate contributions. Coordination with other BellSouth companies to ensure proper review and to avoid duplication. X
- Administration of all corporate memberships and sponsorships. X

Corporate Secretary

- Preparation for and documentation of Board of Directors and Committee meetings. X
- Preparation of corporate filings with Secretaries of State. X
- Administration of policies and procedures relating to Directors. X
- Archiving programs for retention of corporate records and subsequent documentation and research. X
- Certification, advice and information regarding directorship practices, board matters and file policies. X
- Retention of corporate and subsidiary records and files. X

Executive

- Chairman and Vice-Chairman. X
- Leadership and direction in specific BSC functional areas X

Federal Relations

- Collection and analysis of information about issues pending in the various departments of the Federal government and sharing it with appropriate BellSouth management. X
- Articulation of BellSouth corporate policies to all branches of the Federal Government with particular emphasis on the U.S. Congress. X
- Representation of BellSouth in various national organizations such as the United States Telephone Association, or the United States Chamber of Commerce. X
- Creation and coordination of alliances with outside stakeholders having similar interests as BellSouth on certain issues. X
- Corporation's primary contact with the Federal Communications Commission. X
- Corporate liaison with the Federal-State Joint Boards, convened to examine issues related to both jurisdictions. X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Federal Relations (Cont'd)

- Advisement of BellSouth management of the impact of regulatory policies and decisions. Evaluation of regulatory policy options and proposed long-range regulatory objectives. Assistance in the formulation and drafting of FCC pleadings. X
- Establishment of contacts with State Regulatory staffs, the Commissioners and state government organizations outside the BellSouth region, where appropriate. X
- Establishment of contacts with Executive Branch agencies in order to monitor issues and activities related to telecommunications and regulation. X

Financial Management

Chief Economist

- Corporate value estimates and pro formas by consolidating independent views of BST and BSE LOB's and laying in corporate financial-policy assumptions. Regular update to ensure that the Chairman and selected other senior management have the latest available information on the corporate financial outlook. X
- Alternative scenarios for plans, policies and the operating environment. Alternatives examined may include, among others: (a) capital allocation, including M&A; (b) competition; (c) types of regulation; (d) financial policy; (e) state of the economy; and, (f) corporate organization. Position papers and recommendations for senior management based on results of these analyses. X
- Research projects which improve the quality of analysis and prediction in business cases and financial views, and which contribute to understanding and explaining operating results. X
- Econometric and simulation models used in developing independent views of entity operations. X
- Research projects to generate or improve forecasts of variables which drive entity revenues, expenses and capital requirements. X
- Research projects which support setting corporate financial targets and corporate financial policy. X
- Participation in the analysis and interpretation of operating results and in the development of reports communicating these analyses to the officers, the BSC Board of Directors, and external audiences. X
- Economic, financial and demographic forecasts for use in developing corporate plans and policies. X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Financial Management

Chief Economist (Cont'd)

- Methods and procedures used in business-case and view development.
- Research support as needed to organizations throughout BST in such areas as modeling and quantitative methods, market sizing competitive analysis, anti-trust and regulatory economics, and corporate finance.

X

X

Financial Planning and Analysis

- Guidelines and financial planning assumptions used by all subsidiaries in preparing the strategies and financial plans and budgets.
- The BellSouth Consolidated Budget View.
- Recommendations and guidance concerning the establishment of Headquarters' departmental expense budget levels.
- Review of the forecast of each subsidiary to determine its value with respect to BellSouth economic and financial outlook assumptions.
- BellSouth portfolio management by studying, from a consolidated viewpoint, changes to the corporation's financial value from resource allocation alternatives.
- Various financial models, including the BellSouth business case.
- Independent views of the BellSouth Enterprises and BellSouth Telecommunications business cases using competitive, external analyst, economic, strategic, and trend information to provide a ten-year view to senior corporate officers.
- The financial data included in the Board of Directors meetings and executive summaries and highlights for FACTS packages.
- Research and recommended quarterly adjustments to subsidiary forecasts as required.
- Corporate earnings projections and assistance to Investor Relations with respect to analysis of results.

X

X

X

X

X

X

X

X

X

X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Human Resources

- Development and implementation of procedures for the administration of the Medical Assistance Plan (MAP), the Flexible Benefits Plans, Group Life, FlexLife, Special Accident and Dependent Group Life Insurance Plans. X
- Development and reassessment of long-range benefits philosophy and objectives. X
- Researching benefits provided in other industries with which BellSouth competes for employees and comparisons of BellSouth's benefits to those in competitive businesses. X
- Tracking of benefits usage and cost data and recommendation of plan changes to control benefit costs. X
- Preparation of strategy and development of Company positions resulting from the collective bargaining process. X
- Development of financial analyses of alternative benefit plan features. X
- Drafting and control of benefits master plan texts for the corporation. X
- Development and implementation of procedures for administration of management and craft pension plans, crediting of service, formal leaves of absence, and retirement planning. X
- Development and implementation of procedures for administration of BellSouth Management Savings Plan (MSP), BellSouth Savings and Security Plan (BSSSP), the inactive BellSouth Employee Stock Ownership Plan (PAYSOP), and the Employee Stock Ownership Plans (ESOP). X
- Communication on level of employee benefits and effective use of company reports of benefit operations and results. X
- Development and review of the effectiveness of the various benefits programs and the associated vendors. X
- Development of strategy to effectively move management employees between all BellSouth entities. X
- Development and implementation of procedures for the administration of employee Service Award programs, and coordinate the service/retirement and other such employee Service Award programs. X
- Development and maintenance of data systems to support Human Resources functions throughout the Corporation. X
- Supporting the Human Resources mechanization needs of affiliated companies through systems design and consultative services. X

BSC Services Provided to BST at FDC

	Transaction-Based Services	Knowledge-Based Services
		
Human Resources (Cont'd)		
• Development and coordination of the long-range philosophy and corporate objectives for providing non-qualified benefits.		X
• Designing non-qualified benefit plans consistent with corporate objectives and responsive to legislative and/or regulatory changes.		X
• Administration of the stock option and non-qualified benefit plans for all active and retired Executives and Key Managers.	X	
• Supporting implementation of Force Management Strategy for Key Managers and Executives.		X
• Design and development of Executive compensation and incentive plans.		X
• Establishment and maintenance policies regarding Executive base pay and incentive plan structures.		X
• Researching current writings/publications on new forms of base and variable pay, recognition programs, and determine application to BellSouth's programs. Redesigning of programs as appropriate.		X
• Design and development of management education programs for all management personnel.		X
• Development and implementation of new programs and processes to assist in the management of organizational change, redesign of organizations and jobs, and streamlining of work processes.		X
• Coordination and development of the Human Resources Strategic Plan and provide Human Resources planning and consultative services to various planning constituencies.		X
• Development and implementation of bargaining strategies for labor negotiations.		X
• Research of current bargaining settlements and trends in other industries.		X
• Provision of financial view assumptions for wages, benefits, and employee telephone concessions.		X
• Interface with CWA district and international staff in order to maintain union/management relations to aid in accomplishment of the corporate strategic directives.		X
• Support for BellSouth's non-management compensation plans.		X
• Coordination and planning for future regional collective bargaining with CWA for BellSouth represented companies.		X
• Coordination of all OSHA requirements.		X
• Review of new or revised practices for their potential impact on occupational health and safety.		X
• Development of operating procedures concerning the safe use of materials.		X
• Coordination of development, administration and ongoing maintenance of the BellSouth Accident Prevention Plan (BSAPP).		X

BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Human Resources (Cont'd)

- Provision of environmental support throughout BellSouth Corporation's Headquarters operations.
- Review and monitoring of Human Resources Program development to ensure compliance with equal employment and work place opportunities legislation.
- Development of corporate non-management recruiting, employment and selection policy and methods.
- Development of overall corporate policies for management recruiting, cooperative education and internship programs.
- Coordination of all assessment and succession planning activities for key personnel.

X

X

X

X

X

Internal Auditing

- Internal audits for management of BellSouth Corporation Headquarters. Corporate functions subject to audit include pension fund management, treasury functions, corporate taxation, etc.
- Support of the Audit Committee of BSC and BST Boards by providing information to members, coordinating the administration of committee meetings, summarizing audits, and preparing status report of Corp. audits.
- Development of the Audit Universe and production of the annual audit plans for the entire corporation, and performance of quality assurance reviews of all audit staffs within the Corporation.
- Coordination of the department's annual audit plan with the external auditors, and advising management of the firm's audit fees. Coordination of all regulatory requests for the department.
- Audit standards and methods for the entire Corporation and the audit subject guides for all auditable subjects within the corporation.
- Coordination of audit training and professional development needs of all audit staffs by selecting appropriate seminars and courses, teaching courses and developing new course materials.
- Computer-assisted audit procedures for all auditors in the corporation in areas of technical support, training, computer hardware and software.
- Audit publications containing audit digests, audit statistics and results for the officers and upper management of the corporation.
- All direct supervision of audit offices through the BellSouth Chief Corporate Auditor and administrative support, including budgets and billing functions, for the entire corporation's internal auditing activities.

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BSC Services Provided to BST at FDC

Transaction-Based
Services

Knowledge-Based
Services



Investor Relations

- Direction and guidance on corporate governance matters, management of the proxy process in support of the annual meeting and management of the interface with the shareowner services transfer agent.
- Serving as direct liaison with the stock transfer and shareholder services agent, negotiating and administering the shareholder services contract between BellSouth and the agent, and monitoring the quality of services and communications provided by the transfer agent.
- Stock transfer and shareholder service.

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Legal

- Representation of the subsidiaries before the Federal Communications Commission.
- Review, analysis, and interpretation of FCC orders and notices.
- Advice and assistance to BellSouth management and the subsidiaries regarding FCC rules, regulations, and decisions.
- Preparation of pleadings and conduct proceedings before the FCC on behalf of the subsidiaries.
- Representation of the subsidiaries before the MFJ Court.
- Representation of the subsidiaries before the Court of Appeals on MFJ and antitrust matters.
- Legal advice to BellSouth management and the subsidiaries regarding the MFJ.
- Antitrust advice to BellSouth management and the subsidiaries.
- Development of and sponsoring of antitrust compliance seminars.
- Advice and assistance with regard to labor relations and other human resources matters to BellSouth and its subsidiaries.
- Advice and assistance to BellSouth and its subsidiaries with regard to pension, savings, and welfare plans as well as other benefit-related matters.
- Information to and solicitation of comments from BellSouth subsidiary labor attorneys on pending federal legislation affecting the Human Resources area.
- Coordination of regularly scheduled meetings and coordinate efforts of labor attorneys from BellSouth and its subsidiaries on current legal matters affecting the companies.
- Review, analysis, and interpretation of various court and administrative rulings and provide advice and assistance to BellSouth and its subsidiaries regarding these rulings.

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BSC Services Provided to BST at FDC




Legal (Cont'd)

- | | Transaction-Based
Services | Knowledge-Based
Services |
|---|-------------------------------|-----------------------------|
| • Advice and assistance regarding federal, state and local tax matters. | | X |
| • Advice and assistance with regard to the consolidated federal income tax return and state and local returns of BellSouth Corporation and its subsidiaries. | | X |
| • Advice and assistance with regard to regulatory tax issues. | | X |
| • Representation of BellSouth and its subsidiaries before the Internal Revenue Service and state local and tax agencies and in tax litigation. | | X |
| • Information to management and preparation of comments regarding federal, state, and local tax legislation and agency regulations and rulings. | | X |
| • Advice and assistance in preparation of trademark, service mark and patent applications. | | X |
| • Representation of BellSouth and its subsidiaries in infringement litigation. | | X |
| • Advice and assistance with regard to requirements of and filings with the Securities and Exchange Commission, the stock exchanges, and state and foreign securities regulators. | | X |
| • Advice and assistance with regard to inter-corporate relationships. | | X |
| • Counsel with regard to debt acquisition and equity infusions to the subsidiaries. | | X |
| • Analysis and comment on proposed legislation and regulation in the corporate and securities area. | | X |
| • Representation of BellSouth in litigation as required. | | X |
| • General advice and counsel to BellSouth Corporation and its various departments and the Board of Directors on corporate law and practice and corporate governance matters. | | X |
| • Support and advice to the subsidiaries on corporate governance matters with respect to federal and state laws and regulations, and with respect to BellSouth policy. | | X |
| • Advice and review as to shareholder proxy development and solicitation and the conduct of the Annual Meeting and/or other shareholder meetings. | | X |

Media Relations

- | | |
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| • Coordination of legal and regulatory disclosure requirements for BellSouth Corporation and provide guidance for disclosure requirements for subsidiaries. | X |
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BSC Services Provided to BST at FDC

	Transaction-Based Services	Knowledge-Based Services
		
Media Relations (Cont'd)		
• Coordination of information for financial data, federal legislative and regulatory activities and corporate policy for the subsidiaries.		X
• Coordination of national and international media inquiries concerning BellSouth for subsidiaries and refer media inquiries to the appropriate subsidiary when inquiry does not pertain to BellSouth Corporation.		X
• Coordination of information for reporters and broadcast news producers by providing background information and interviews to stakeholders.		X
• Establishment of consumer group support for corporate goals and advise corporation of consumer concerns.		X
Public Relations		
• Corporate employee information strategies and coordination of programs and activities with BellSouth companies.		X
• Production of the BellSouth magazine (employee quarterly).	X	
• Planning and execution of the Annual Shareholder's Meeting.	X	
• Production of BellSouth Corporation executive conferences.	X	
• Production of quarterly newsletter to shareowners and BLS Journal to institutional investors.	X	
• Production the Annual Report.	X	
• Speeches, articles, and related materials on industry issues.	X	
• Coordination of the BellSouth public relations strategic and operational plans based on corporate plans and strategies.		X
• Coordination of communications support for MFJ grassroots lobbying activities for the corporation.		X
• Public Relations professional development throughout the Corporation.		X
Security		
• Personnel, revenue, property, and security investigations for BSC.	X	
• Security for Annual Shareholders Meeting and BSC Board of Directors Meetings, BellSouth Classic, etc.		X
• Intelligence and advisory information for employee international travel.		X